TORONTO

STAFF REPORT
ACTION REQUIRED

Restructuring of Relationship with Lakeshore Lions Arena Incorporated

Date:	June 6, 2011
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer General Manager, Parks, Forestry and Recreation
Wards:	Ward 6
Reference Number:	P:\2011\Internal Services\Cf\Ec11020cf (AFS #14006)

SUMMARY

Lakeshore Lions Arena Inc. (the "LLAI") is a not for profit corporation which operates a four-pad Arena at 400 Kipling Avenue. The facility, which has a 50 year land lease from the Toronto District School Board (the "TDSB"), opened in September 2009, and carries a debt of $43.425 million, of which $35.5 million is guaranteed by the City of Toronto. Lakeshore Lions Club (the "Club") appoints the Board of Directors of LLAI from Club members and governs all activities of the Arena.

The new Lakeshore Lions Arena (the "Arena") is 4-pad arena complex located at 400 Kipling Avenue and was constructed to replace the dated single-pad facility and to address an under-supply of ice time in the City. The last indoor municipal arena in Toronto was constructed 30 years ago, and 70% of City arenas are more than 45 years old. In addition, the 3 NHL size and 1 Olympic size rinks at the Arena provide opportunities to host other major events and continue to be the practice facility for the Toronto Maple Leafs and Marlies, which leverages other uses and interests.

The City has an annual allocation of prime time ice at community rates, escalating to 800 hours per year in the fifth and subsequent years of the term, and has accessed its allotment hours in the first two start-up years. The TDSB has access to 500 hours of non-prime time ice annually at no charge.

The community and city-wide benefits of this facility include:

a. Addressing an under-supply of ice time;
b. Access and reduced rates for City and TDSB use of the facility;
c. Community use;

d. A state-of-the-art facility with energy efficient design.

Lakeshore Lions Arena Inc. was able to meet its operating and debt service obligations for the first two years of its operations. Approximately half of the debt is by way of a variable interest rate loan. Due to a number of factors including an increase in interest rates, delays in maximizing commercial opportunities, and the approaching due date for some of the loans, the arena will not be able to meet its operating and debt service obligations.

Without intervention, default of the Lakeshore Lions Arena Inc. is projected to occur by summer, and which would result in the City's loan guarantee for this project being called upon. Disruption of service would also displace the current tenants and facility users, putting additional pressure on already scarce ice time. It would also put revenue streams from tenants and users at risk.

To protect the City's financial interest and avoid the loss that would arise from a default, this report recommends that a city services corporation be established to assume the leasehold interest, ownership of the asset, project construction debt of the LLAI, and to operate and manage the Arena. The City Services Corporation would stabilize the operation by receiving loans from the City to provide working capital and discharge the existing floating rate loans with the lender, and put in place skills based board members with the necessary expertise to maximize the potential of the Arena over the next 2-3 years. Following that period, the City would seek an operator to take over the leasehold interest with minimal to no loss to the City.

In addition to approval by Toronto City Council, the recommended arrangement will be subject to approval by Pacific and Western Bank of Canada, Giffels Corporation and Lakeshore Lions Arena Inc., all of whom have indicated consent in principle.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer General Manager, Parks, Forestry and Recreation recommend that:

1. City Council adopt the business case in Attachment 1 of this report and establish a new city services corporation named Lakeshore Arena Corporation (the "Corporation"), pursuant to Section 148 of the *City of Toronto Act, 2006,* and Ontario Regulation 609/06 (City Services Corporation Regulation) and the *Ontario Business Corporations Act,* to assume the leasehold interest in the 4-pad Arena located at 400 Kipling Avenue from the Lakeshore Lions Arena Inc. (LLAI) and to manage and operate the Arena.

2. Authority be granted to consent to the assignment by LLAI of its leasehold interest in the Arena to the Corporation, and to the assignment by LLAI of all related rights and agreements, including subleases, the Naming Rights Agreements, and the Municipal Capital Facilities Agreement, to the Corporation.

3. The Corporation assume the leasehold interest of LLAI and the following balance of project construction debt:

   a. $20,771,834 in fixed rate debt and $18,838,379 in floating rate debt with Pacific and Western Bank of Canada (the "Lender");
   b. $1,200,000 as a payment to Giffels Corporation ("Giffels"); and,
   c. $1,000,000 Energy Efficiency Loan with the City.

4. The Corporation assume, such other reasonable business-related liabilities of LLAI in respect to the construction, management and operations of the Arena as may be identified by a currently on-going review of the liabilities of LLAI, and that the General Manager of Parks, Forestry and Recreation and the Deputy City Manager and Chief Financial Officer report directly to City Council at its meeting of July 12 and 13, 2011, with recommendations following this review, including any additional funding that may be required as a result.

5. City Council authorize a short-term interest-only loan to the Corporation in an amount not to exceed $20,039,000, plus any subsequent accrued and capitalized interest at the rate of 3% compounded semi-annually, for the purpose of discharging, in whole or in part and on a date or dates determined at the discretion of the Deputy City Manager and Chief Financial Officer, the three existing Floating Rate Credit Facilities with the Lender, and the payment to Giffels, to be funded from the City's own working capital.

6. City Council authorize a line of credit to the Corporation in an amount not to exceed $800,000, with interest at the rate of 3% annually calculated monthly, for the purpose of covering periodic operating working capital cash shortfalls, to be repaid in full, and to be funded from the City's own working capital.

7. City Council authorize a grant of $200,000 to the Corporation to fund the additional working capital requirements of the Board for various expenses anticipated during its start-up period, as described in the body of this report, to be provided through reallocation within the Parks, Forestry and Recreation 2011 Operating Budget.

8. The loans and grant to the Corporation recommended in Recommendations 5, 6, and 7 above, be deemed to be in the interests of the City.

9. Despite the standard composition established by Council under item 2011.EX4.7, City Council establish the board composition of the Corporation consisting of:

   a. The General Manager of Parks, Forestry and Recreation, or her designate, as the Chair of the Board;
   b. The Chief Corporate Officer or his designate;
   c. The Deputy City Manager and Chief Financial Officer or his designate;

d. A representative of the tenants; and,

e. Two members of the public with expertise and a background in sports and entertainment, finance, and/or marketing.

10. The Board, once established, be authorized to recruit the tenant representative and citizen representatives identified in 9 (d) and (e) above, and report back to Council with the recommended appointees.

11. The City release the directors and members of Lakeshore Lions Arena Inc. and the Lakeshore Lions Club from any claims arising from their role as directors or members in respect of the Arena, and indemnify and save harmless the directors and officers of the Corporation from time to time against any claims they may incur in their roles as board directors and officers.

12. As the sole shareholder, City Council approve the Unanimous Shareholder Declaration as set out in Attachment 2 and the By-Law No. 1 for the Corporation as set out in Attachment 3, effective upon the establishment of the Corporation.

13. The Corporation assume from LLAI employment contracts and other existing service contracts for the continued operation of the Arena.

14. The General Manager of Parks, Forestry and Recreation, in conjunction with the Deputy City Manager and Chief Financial Officer, report back to the Executive Committee at the appropriate time on a long-term strategy for the long-term self-supporting viability of the Arena.

15. Authority be granted to enter into any agreements or documents, including amendments to existing agreements, between the City and the Corporation, LLAI, the Lender, Giffels, any tenants of the Arena, or any other parties as may be required, desirable, or necessary in relation to the implementation of the recommendations of this report, all on such terms and conditions as are set out in this report and as are satisfactory to the Deputy City Manager and Chief Financial Officer in consultation with the General Manager of Parks, Forestry and Recreation, and in a form acceptable to the City Solicitor.

Implementation Points

City staff are recommending that Council establish a new city services corporation to act as an operating entity to manage and operate the Lakeshore Arena, upon assumption of the leasehold interest from the current operator, LLAI. LLAI have consented to transferring their leasehold interest in the Arena and will work cooperatively with the new corporation to implement this transfer. Existing LLAI arena operating staff will, if they choose, become employees of the new corporation, and all operating, tenant, and ice scheduling contracts will be honoured. The key objective of the Lakeshore Arena Corporation will be to stabilize the operations of the Arena, and to maximize future revenues at the Arena during the interim period while the City establishes a long term strategy for the Lakeshore Arena and potential options for divesture in a manner that minimizes financial risk to the City of Toronto.

Financial Impact

The City has provided Capital Loan Guarantees to the Lender, Pacific and Western Bank of Canada, totalling $35.5 million. An additional $4.658 million was provided by the Lender with priority status. Giffels has also assumed a $1.5 million construction loan, subordinate to the Pacific and Western loans, and an additional $767,000 as an unsecured loan. The City also provided a $1.0 million Energy Efficiency Loan, subordinate to the Giffels secured loan. The total project cost of $43.425 million is entirely debt financed.

Given that the Lakeshore Lions Arena can no longer meet the financial obligations of its debt burden, in order to protect the City's financial interest, this report recommends the assumption of operations through a new City Services Corporation. The report further recommends that working capital of $800,000 be provided in order to cover cash-flow deficiencies that will occur from time to time. Also, a short-term interest-only loan not to exceed $20,039,000 funded from the City's working capital is recommended to be provided in order to discharge the three existing Floating Rate Credit facilities between the Lender and Lakeshore Lions Arena Inc. ($18.838 million), which are currently guaranteed by the City or secured against the revenues, and a payment to Giffels of $1.2 million. In exchange for such payment on September 1, 2011, Giffels has agreed to discharge all of its claims against the arena. The City's previous loan guarantees to the Lender would by necessity continue.

The City Services Corporation will also require additional operating funds of $200,000 during its first year of operation to pay for a General Manager to oversee the transition, to hire a business consultant to develop a business plan, and to pay for accounting, audit and legal services. These funds will be provided as a one-time grant accommodated by reallocation within the Parks, Forestry and Recreation 2011 Operating Budget.

BACKGROUND AND DECISION HISTORY

The Lakeshore Lions Arena Inc. is a corporate entity established by the Lakeshore Lions Club, a non-profit service club whose members are community volunteers. The Lakeshore Lions had successfully operated the single-pad arena located on City lands adjacent to 400 Kipling Avenue since 1951, without any financial assistance from the City. In early 2000, they approached the City with a proposal to develop and operate a new four-pad arena complex to replace its dated facility and to meet the growing demand for ice time in Toronto. In 2005, the City entered into a land exchange with the Toronto District School Board (TDSB) for the lands at 400 Kipling Avenue, in the interest of advancing this project.

On September 25-27, 2006, Council authorized the execution of a long-term sub-lease to be entered into with the Lakeshore Lions for the property at 400 Kipling Avenue owned by the TDSB to facilitate the development of a new four-pad arena complex. As part of

this authority, Council provided a capital loan guarantee agreement totalling $29 million in relation to the financing arrangements between the Lakeshore Lions and their lender to facilitate the construction of the four-pad arena. Council's approvals in this regard can be viewed at:
http://www.toronto.ca/legdocs/2006/agendas/council/cc060925/pof7rpt/cl021.pdf

In 2007, the Lakeshore Lions approached the City to request an increase in the project budget and capital loan guarantee. As a result of further considerations, Council on April 23 and 24, 2007 authorized amendments to the sub-lease agreement to increase the maximum fixed price project budget to $33.65 million, excluding capitalized interest costs of approximately $2.7 million, and the Lender advanced a further $4.66 million to LLAI, which was not guaranteed by the City but granted priority repayment status. Council also imposed additional terms and conditions on the Lakeshore Lions in order to mitigate some of financial risk to the City from the additional financial burden this request made on the Project. This decision can be viewed at:
http://www.toronto.ca/legdocs/mmis/2007/ex/bgrd/backgroundfile-2875.pdf

In early 2009, the City became aware of significant changes to the project's scope and construction cost increases resulting in a project cost of approximately $44 million. The responsibility for the construction of the project was that of LLAI and Giffels, and was subject to a guaranteed fixed price contract between those two parties. The City's role was as guarantor to the loans obtained between LLAI and their lender. These agreements required that any changes to the building design be made only with the written consent of the City. The details giving rise to these construction cost increases were reported in the confidential attachment to a report presented to Council on August 5, 2009, to which Council authorized a further $5 million increase in its loan guarantee. That report can be viewed at:
http://www.toronto.ca/legdocs/mmis/2009/mm/bgrd/backgroundfile-22678.pdf

COMMENTS

After two seasons of operations, while revenues and expenses are in the order of those anticipated, the Lakeshore Lions Arena can no longer meet the financial obligations of its debt burden, particularly due to an increase in interest expenses given that approximately half of the debt is by way of a floating rate loan. Furthermore, given the financial obligations associated with the Arena, the Lakeshore Lions can no longer derive funds from the operation of the Arena for the charitable purposes it supported prior to entering into this project, and has indicated its willingness to surrender its leasehold interest in the Arena.

Without intervention, default of the Lakeshore Lions Arena Inc. is projected to occur by summer, which would result in the City's loan guarantee for this project being called upon. If the LLAI were let to default, then the Lender and other creditors would be forced to commence enforcement under their security which would effectively remove resolution of the arena's funding from the City's control. Further, such actions would disrupt the current tenants, negatively affect the community that regularly makes use of the arena, and cause lost revenue from disruption of use. This would put further strain on the arena's viability and potentially have other ramifications which could increase the City's exposure.

The Lakeshore Lions Club has requested that it be permitted the use of the new facility's meeting room for its meetings and occasional fundraising events, and a release of former directors, officers and members of the LLAI and the Club from all liability related to the Arena. They would also like to keep the Lions Club signage in the building. Further, it is acknowledged that the Lakeshore Lions Club have for a long period of time been funding Camp Bellaleo for children in need, the majority of whom which are from Toronto, from their prior operation of the single-pad arena. Funding to this worthwhile cause has been suspended due to Arena's cash flow concerns, and the camp is currently closed. The Lakeshore Lions Club has asked, as part of the re-assignment of their interest in the Arena, that consideration be given to making a one-time grant to this cause in 2012, pending the submission of a business case to re-open the camp with the participation of other Lions clubs. These concerns will be accommodated by adoption of the shareholder declaration as part of this report.

Revenues and Expenses

The following chart outlines the annual operating revenues and expenses of the Arena as of Council's last consideration of the project and as updated with current projections.

Chart 1 – Operating Revenues and Expenses ($000's)

	Initial Pro-Forma (2009 Council Report)	Current Pro-Forma	Change
Operating Revenues:			
Ice Rental Revenue	2,318	2,268	(50)
Tenant Leases	712	946	233
Licensing (Naming Rights)	167	262	96
Snack Bar	368	167	(201)
Concession and Other Revenues:	75	98	23
	3,640	**3,741**	**101**
Operating Expenses:			
Salaries & Benefits	643	831	188
Utilities	525	795	270
Snack Bar Operations and Purchases	189	77	(112)
Other	666	357	(309)
	2,022	**2,060**	**38**
Operating Cash Flow before Debt Service	**1,617**	**1,680**	**63**
Debt Service:			
Fixed Rate Loan Facility	1,203	1,203	-
Floating Rate Loan Facilities	282	419	137
	1,486	**1,622**	**137**
Net Cash Flow after Debt Service	**132**	**58**	**(74)**
City Energy Efficiency Loan Repayments Commencing January 1, 2012		100	
Giffels Secured Mortgage Due December 31, 2011		1,386	
Projected Deficit on January 1, 2012		**(1,428)**	

The revenues from Arena operations of $3.7 million in the second year of operation are slightly better than those projected in the business case used in support of the project of

$3.6 million. The bulk of revenues ($3.5 million) comes from the core business of ice rental, tenant rental payments (Maple Leaf Sports and Entertainment, Hockey Hall of Fame, NHL Alumni Association), and the MasterCard naming rights. These sources of revenue are considered to be very stable, and incorporate standard rental escalations which would increase revenues over time. It is a high priority for the City to ensure uninterrupted operations of the arena and continuation of all existing tenancies and permits in order for the arena to sustain its financial obligations.

A small portion of revenues ($270,000) comes from ancillary uses such as snack bar, vending machines, and other advertising. Although it was not incorporated in the original business case, there was recognition of additional revenue potential from the space on the second floor (approximately 6,500 sq. ft.) which remains unfinished due to lack of further construction funding availability. The LLAI had attempted to attract a restaurant operator for the space, but were unsuccessful in negotiating suitable terms. Identification of suitable uses and development of this space, along with other areas of the complex, could yield additional revenues for the project in the future.

The expenses (excluding financing) from Arena operations of $2.06 million in the second year of operation are also in the order of those expenses projected in the business case ($2.02 million).

Earnings before debt service arising from this project are approximately $1.6 million per year, as shown in Chart 1.

Debt Servicing

Obtaining capital financing for the project was the direct responsibility of LLAI. The City's role was as guarantor to the loans obtained between LLAI and their Lender. Pacific and Western Bank of Canada ultimately provided four loan facilities to LLAI to complete the project. Additional loans were necessary by the Contractor, Giffels, in order to complete the project, and the City through its Energy Efficiency Loan program in respect of changes to the design which incorporated a state-of-the-art dehumidification and heat recovery system.

Chart 2 summarizes the capital financing for the project.

Chart 2 – Financing for Project

Facility	Type	Original Amount (Incl. capitalized interest)	Current Amount (as at June 1, 2011)	Change	Current Annual Payments	Comments
1	Floating Rate - Prime less 1.4%	10,016,391	9,830,198	(186,193)	157,283	Term Renewal Oct. 2014
2	Floating Rate - Prime less 1.4%	4,657,607	4,571,028	(86,579)	73,136	Term Renewal Dec. 2014
3	Floating Rate - Prime plus 1.25%	4,506,437	4,437,152	(69,285)	188,579	Term Renewal Dec. 2014
	Sub-total - Floating Rate	19,180,435	18,838,379	(342,056)	418,999	
4	Fixed Term Loan - 5.23% over 35 years	20,978,000	20,771,834	(206,166)	1,203,216	Term Renewal Oct. 2017
	Total - Primary Lender	40,158,435	39,610,213	(548,222)	1,622,215	
Others:				-		
Giffels Secured Mortgage		1,500,000	1,385,980	(114,020)		Due in full Dec. 31, 2011
City Energy Efficiency Loan - 10 year interest free		1,000,000	1,000,000	-		$100,000 per year Commencing Jan. 1, 2012
		2,500,000	2,385,980	(114,020)		
	Total - Secured Loans	42,658,435	41,996,193	(662,242)		
Giffels Unsecured Loan		767,000	767,000	-		
	Total - All Loans	43,425,435	42,763,193	(662,242)		

The entire cost of the project is debt financed. Approximately half of the cost of the project ($21 million) was financed by way of a fixed-term loan, wherein blended principle and interest payments are made monthly. Another $19.2 million was financed by way of floating-rate interest-only loans. The interest payment on these floating-rate loans will fluctuate with the prime rate which is currently 3.0%. Since operations commenced, the prime rate has increase by 0.75%, which has increased debt servicing costs by $136,000 annually, with further prime rate increases being anticipated.

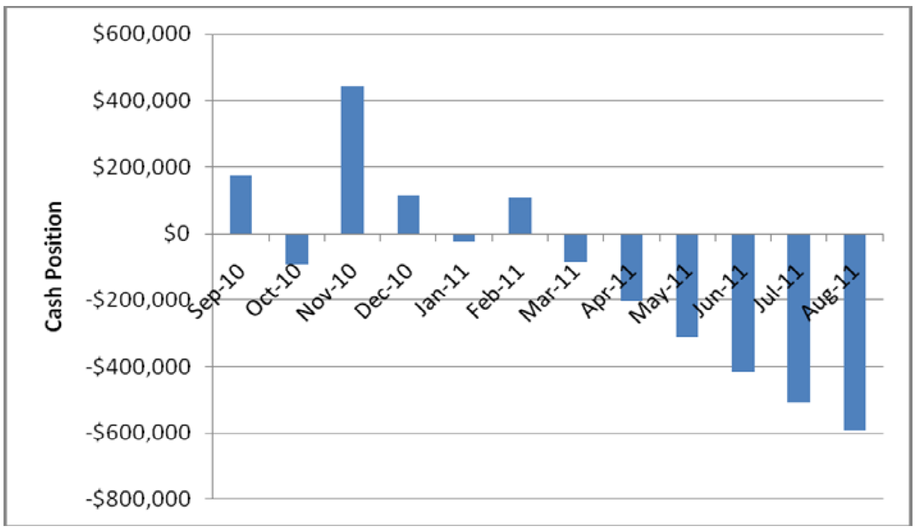
As a result of the escalated capital cost of the project which is 100% debt financed, at the current prime rate, the debt servicing costs of $1.62 million consumes essentially all of the net earnings of the project, notwithstanding the fact that none of the principle on the floating-rate facilities is being paid down. Any further increase in interest rate will render the project insolvent.

In addition to these Pacific and Western Bank loans, the LLAI interest free loan from Giffels matures and is due and payable on December 31, 2011, and repayment of the City's interest free BBP Energy Efficiency Loan becomes repayable over ten years commencing January 1, 2012, as shown at the bottom of Chart 2. LLAI has not been able to identify a repayment strategy for these two obligations. There is additional $767,000 owed to Giffels, however, it is unsecured and repayable only after the repayment obligations of all the other debts have been met.

Working Capital Issues

Although the LLAI's current annual net earnings can meet their annual debt service requirements, there is a seasonal aspect to the arena business whereby revenues decline during the non-prime summer months and are at a high during the September to March prime winter season. Given their near break-even position overall, the Arena will be in a cash flow deficit position during the summer months. The current pro-forma suggests this deficit peaking around $500,000 to $600,000 in July and August, as shown in Chart 3. In addition, it is prudent to provide the corporation with additional funding flexibility for emergencies and other obligations. The current financing arrangements preclude the LLAI from obtaining any more loans or lines of credit without consent of all the other current debtors, and which in any event would have to be subordinate all other existing loans and/or unsecured.

Chart 3 – Projected Arena Cash Position



As an urgent necessity to address the impending working capital issue to avoid disruption of service, this report recommends the City provide a Line of Credit in an amount not to exceed $800,000 to provide working capital at an interest rate of 3.0%, and to be repaid in full. This can be funded from the City's own working capital as this is only a short-term line of credit. Staff will monitor the corporation's use of this credit facility.

Interest Rate Risk

As previously noted, approximately half of the project ($19.695 million) is financed by way of floating-rate interest-only loans, to which the interest payments will rise with increases in the prime rate. Given historically low interest rates, it is not unusual to finance mortgages with floating-rate loans, and then to lock in rates if there is upward pressure on interest rates that can no longer be carried. Floating rate facilities provide the most flexibility in term of repayment and in refinancing. Repayment of the principle on these loans is through a cash flow sweep of project operating surplus, if any, after meeting the monthly obligations of the fixed term loan. From the first year of operation, the project operating surplus was $456,079 of which $342,059 (75% of operating surplus) went to principle repayment on the floating rate loans, and $114,020 (25% of Operating

Surplus) went towards paying down the $1.5 million Giffels secured loan, pursuant to the cash flow sweep requirement.

Given the magnitude of the floating-rate loans, this report recommends the City provide a short-term interest-only loan not to exceed $20,039,000, in order to discharge the three existing Floating Rate Credit Facilities between the Lender and LLAI, and the payment to Giffels. This funding will be provided to the corporation in whole or in part at a time determined by the Deputy City Manager and Chief Financial Officer depending on market conditions. This will provide the City and corporation with the flexibility to reduce exposure to rising interest rates. It is further recommended that this be funded from the City's own working capital at an interest rate of 3.0% as it is intended to be short-term pending the development of a longer-term strategy for the facility, which may include divesture.

Objectives of City Services Corporation

Given that the LLAI has indicated its intent to surrender its leasehold interest in the Arena, this report recommends that a new corporation, named Lakeshore Lions Corporation, be established pursuant to the *City of Toronto Act, 2006,* and the *Ontario Business Corporations Act.* The Corporation would assume the leasehold interest in the facility and the various debt obligations associated with the construction of the Arena, in order stabilize and operate the facility over the next two to three years until a future direction for the Arena can be established.

The primary objective of the City is to minimize the risk of financial loss due to loan default by ensuring that the operations of the arena continues and generates enough income to repay both interest and principle on the loans. Existing LLAI arena operating staff will, if they choose, become employees of the new corporation, and all operating, tenant, and ice scheduling contracts will be honoured.

Establishing such a Corporation is the best option under the circumstances. A skills based board that can operate at arm's-length to the City would have the greatest flexibility to identify opportunities and take actions to maximize the use of the facility. The key objectives would include, but not be limited to:

- Stabilizing operations and funding seasonal working capital shortfalls;
- Maintaining arena staff, and continuity of service to arena customers and tenants;
- Avoiding default and to eliminating further increases in debt servicing costs by discharging floating rate debt facilities and assuming the loan on an interim basis;
- Establishing a board for this municipal services corporation with expertise in finance, marketing and sports and entertainment to manage operations for limited time and to identify and maximize revenue potential of facility;
- Indentifying options to divest leasehold obligations to an operator with minimal or no loss to the City;
- Ensuring City and school board ice time entitlement are maintained; and,
- Developing a strategy and associated business plan for sustainable, long-term operation of the facility for consideration by Council.

It is anticipated the Corporation will require additional operating funds of up to $200,000 during its start-up period of 18-24 months to pay for a General Manager to oversee the transition, to hire a business consultant to develop a business plan, and to pay for accounting, audit and legal services. These funds will be provided as a one-time grant though reallocation within the Parks, Forestry and Recreation 2011 Operating Budget.

It is also expected that the Corporation will explore additional arena revenue sources that could be derived from the development of tenanted space on the second floor area of the arena. An estimated additional $300,000 would be required to complete this unfinished area to the rough-in grade necessary to attract potential tenants. Staff would report back to Council on the need for such additional funds, should the business case support the expenditure.

If at the end of the transition period it is determined that that the arena cannot support the level of debt on it, then the Deputy City Manager and Chief Financial Officer will report back to Council on an appropriate strategy for the Arena.

It is proposed that a Board of Directors of this Corporation be established that have expertise in arena operations and marketing. It will be the role of the Corporation's Board of Directors to identify and maximize the revenue potential of the Arena, including options for divesture at minimal or no cost to the City. It is intended that there be a report back to the Executive Committee at the appropriate time on a strategy for the long-term viability of the Arena.

CONTACT

Ann Ulusoy, Director
Parks, Forestry and Recreation
416-392-8190
aulusoy@toronto.ca

Len Brittain, Director
Corporate Finance
416-392-5380
lbrittai@toronto.ca

SIGNATURE

Brenda Patterson
General Manager
Parks, Forestry & Recreation

Cam Weldon
Deputy City Manager and Chief
Financial Officer

ATTACHMENTS

Attachment 1: Business Case Study – Lakeshore Arena Corporation
Attachment 2: Unanimous Shareholder Declaration
Attachment 3: By-Law - Lakeshore Arena Corporation

Attachment 1

Business Case Study – Lakeshore Lions Arena Corporation

1. The Importance of the Lakeshore Arena Complex

The Lakeshore Lions Club, a not-for-profit community service organization, has successfully operated a single-pad arena at Don Russell Memorial Park adjacent to the lands at 400 Kipling Avenue for over 55 years. The Club's operation has contributed to community, not only through its financial contributions to community needs, but also by providing access to ice time and recreational programming for the community.

The new Lakeshore Lions 4-pad arena complex located at 400 Kipling Avenue was constructed to replace the dated single-pad facility and to address an under-supply of ice time in the City. The Lakeshore Lions Arena Inc. (LLAI) is a corporate entity established by the Lakeshore Lions Club for this purpose. The last indoor municipal arena in the City was constructed 30 years ago, and 70% are more than 45 years old. In addition, the 3 NHL size and 1 Olympic size rinks provide opportunities to host other major events and continue to be the practice facility for the Toronto Maple Leafs and Marlies, which leverages other uses and interests. The City also has access to 800 hours of prime-time ice annually at community rates, and the TDSB has access to 500 hours of non-prime time ice annually at no charge.

The community and city-wide benefits of this project include:

a. Addressing an under-supply of ice time;
b. Access and reduced rates for City and TDSB use of the facility;
c. Community use;
d. A state-of-the-art facility with energy efficient design.

2. The Reason for Restructuring the Relationship with the City

The responsibility for the construction of the project was that of LLAI and Giffels, and was subject to a guaranteed fixed price contract between those two parties. The LLAI made their own arrangements to acquire 100 percent of project cost financing through a third-party lender, Pacific and Western Bank of Canada. The City's role was as guarantor to the loans obtained between LLAI and their lender, and as lessor of the lands upon which the arena was constructed. The original cost of the project was $29 million. In the end, the project was finished at $43.94 million, and the reasons for the cost escalation and the authority obtained to increase the City's loan guarantees was the subject of several reports to City Council.

The Arena was able to meet its operating and debt service obligations for the first two years of its operations. Approximately half of the debt is by way of a variable interest rate loan. Due to a number of factors including an increase in interest rates, delays in maximizing commercial opportunities and, the approaching due date for some of the loans, the arena will not be able to meet its operating and debt service obligations. Without intervention, insolvency of the Lakeshore Lions Arena Inc. is projected to occur by summer, and which would result in the City's loan guarantee for this project being called upon.

To protect the City's financial interest and avoid the loss that would arise from insolvency of operation, this report recommends a city services corporation be established to assume the leasehold interest and project construction debt of the Lakeshore Lions Arena (the "Arena"), operate and manage the Arena, stabilize the operation by receiving loans from the City to provide working capital and discharge the existing floating rate loans with the lender, and put in place board members with the necessary expertise to maximize the potential of this arena complex over the next 2-3 years, until a future direction for the arena can be established.

3. The Objectives of a City Services Corporation

It is intended that the Lakeshore Arena Corporation will:

- Stabilize operations, fund seasonal working capital shortfalls;
- Maintain arena staff, and continuity of service to arena customers and tenants;
- To avoid default and to eliminate further increases in debt servicing costs by discharging floating rate facilities and assuming loan on an interim basis;
- Recruit sufficient expertise to manage operations for limited time to identify and maximize revenue potential of facility;
- Ultimately, divest leasehold obligations to an operator with minimal loss to the City;
- City and school board ice time entitlement to be maintained.

The Lakeshore Arena Corporation will assume the contractual and employment obligations of LLAI.

It will be the role of the Corporation's Board of Directors to identify and maximize the revenue potential of the arena, including options for divesture at minimal or no cost to the City.

Attachment 2

Unanimous Shareholder Declaration – Lakeshore Arena Corporation

WHEREAS the City of Toronto has leased the property municipally known as 400 Kipling Avenue (the "Property") from the Toronto District School Board;

AND WHEREAS the Lakeshore Lions Arena Inc. ("LLAI") has sub-leased the Property from the City and build a four-pad arena on the Property (the "Arena");

AND WHEREAS the Shareholder, the City of Toronto, has determined that, in the public interest, it will establish an OBCA corporation pursuant to paragraph 1 of subsection 148(1) of *the City of Toronto Act, 2006* and the City Services Corporations regulations of *the City of Toronto Act, 2006*, with the operating name of the Lakeshore Arena Corporation;

AND WHEREAS LLAI has assigned its sublease of the Property to the Lakeshore Arena Corporation;

AND WHEREAS pursuant to subsection 108(3) of the OBCA, this declaration shall be, and is deemed to be, a unanimous shareholder declaration restricting, to the extent provided herein, the powers of the directors of the Lakeshore Arena Corporation to manage or supervise the management of the business and affairs of the Corporation;

IT IS DECLARED THAT EFFECTIVE IMMEDIATELY THE LAKESHORE ARENA CORPORATION SHALL:

1. Assume responsibility from the date of the establishment of the Corporation for:

    a. the sublease between the City and LLAI for the Property, as assigned by LLAI to the Corporation, and such other agreements as are assigned by LLAI to the Corporation.

    b. prudent management of the operations of the Arena as a marquee four-pad arena including its marketing, sales, catering, parking, maintenance, security, caretaking and cleaning, financial administration, property management, and general administration.

    c. the balance of the existing construction debt related to the Arena in the following amounts:

        (i) $20,777,834 in fixed rate debt and $18,838,379 in floating rate debt with Pacific and Western Bank of Canada;
        (ii) $1,200,000 in debt with Giffels Corporation; and
        (iii) $1,000,000 Energy Efficiency Loan with the City;

d. retention, hiring, disciplining or removal of staff;

e. retention and management of consultants;

f. engaging in fundraising activities and accepting donations for the operations of the Arena and for enhancements to the Arena;

2. Pay out the remaining balances of the floating rate debt with Pacific and Western Bank of Canada, and the debt with Giffels Corporation, at such time as directed by the City through its Deputy City Manager and Chief Financial Officer.

3. Work to stabilize and improve the operations of the Arena to make it more attractive as a City asset and a viable recreation and event venue;

4. Produce an annual report on its progress for transmittal to the City through the General Manager of Parks, Forestry and Recreation for the information of City Council.

5. Work cooperatively with the Shareholder to help it determine the long run future of the Arena and in doing so share information with the Shareholder as requested through the General Manager of Parks, Forestry and Recreation, all to assist the City in making its decision regarding the future of Arena.

6. Develop appropriate corporate policies to be approved by the board for procurement, conflict of interest, expense reimbursement, and financial delegation to staff.

7. Display inside the Arena a plaque to commemorate the Lakeshore Lions Club in its efforts to build the Arena, and permit the existing interior and exterior signage bearing the symbol of the Lakeshore Lions Club to continue to be displayed.

8. Permit the Lakeshore Lions Club to hold fundraising events at the Arena on up to five (5) days annually, provided there is no conflict with Arena earnings and on dates and at times agreeable to the Corporation.

9. Permit the Lakeshore Lions Club the non-exclusive use of the community meeting room at the Arena for its club meetings at no charge up to four (4) times per month, on dates and at times agreeable to the Corporation.

10. Consider making a one-time donation of $50,000 to Camp Bellaleo in 2012, subject to the Lakeshore Lions Club submitting to the City a business plan that demonstrates the long-term financial viability of the Camp by participation of other Lions Clubs.

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Dated this day of 2011.

CITY OF TORONTO

By:

City Clerk

Deputy City Manager and Chief Financial Officer

APPROVED AS TO FORM

For Anna Kinastowski
City Solicitor